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Carnegie Foundation for the Advancement...

A statement...teachers in the associated colleges...

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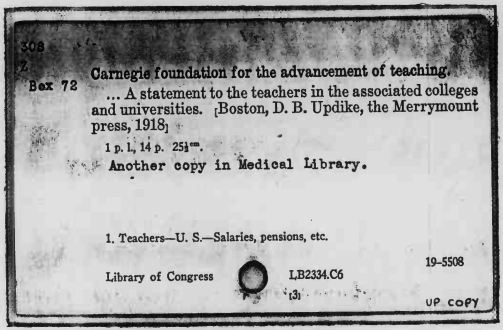
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THE CARNEGIE FOUNDATION
FOR THE ADVANCEMENT OF TEACHING

A STATEMENT TO THE TEACHERS IN THE ASSOCIATED COLLEGES AND UNIVERSITIES

D. B. UPDIKE · THE MERRYMOUNT PRESS · BOSTON

24 March, 1920 - C.R.W.

THE CARNEGIE FOUNDATION FOR THE ADVANCEMENT OF TEACHING

A STATEMENT TO THE TEACHERS IN THE ASSOCIATED COLLEGES AND UNIVERSITIES

DURING the twelve years of its existence, the officers and trustees of the Carnegie Foundation have been engaged in a study of the whole problem of the protection of teachers against the hazards incident to the life of the professional man living upon modest fixed salary. This study resolved itself into three practical questions:

First, Is the free pension system as originally adopted by the Foundation in the interest of the teacher and can it be made permanent?

Second, If the free pension is not a permanent solution, what are the terms upon which an adequate and enduring system of protection for college teachers should be based?

Third, In any substitution of a new plan for the old, what is a reasonable and fair fulfilment of the expectations of the teachers in the associated institutions?

The first two of these questions were, by a vote of the trustees of the Carnegie Foundation in November, 1916, referred for report to a commission upon which were trustees of the Foundation, college presidents, university teachers, and others directly interested in the solution of these questions. An expert actuary was at the service of the commission and the pension experience of the world was available for its use. This commission reached definite conclusions, which are printed in full in the Twelfth Annual Report. In the place of the free pension, the commission recommended certain fundamental principles which should underlie any pension system. It pointed out that insurance during the productive period of life must supplement an annuity in old age; that the former was purely the concern of the individual, while the latter was a joint obligation of the teacher and his employer, the college, and should rest upon their joint contributions. As a conclusion of its labors the commission presented a practical plan adapted to the needs of teachers, in which the individual may obtain both his insurance and his annuity

under definite, contractual terms, at minimum cost and subject to the scrutiny of the state departments of insurance.

The method of the fulfilment of the expectations of the teachers in the associated colleges and universities was not referred to this commission. The determination of that question is a responsibility which rests upon the trustees of the Foundation. The commission very properly, however, took occasion to express its opinion to the trustees in the following resolutions:

Voted: Referring to the resolution of the Board of Trustees of the Carnegie Foundation, adopted in November, 1915, that "whatever plan is finally adopted will be devised with scrupulous regard to the privileges and expectations which have been created under existing rules," this Commission expresses the opinion that the extension to all teachers at present in the associated institutions of the privilege of continuing in the present system would completely meet all their reasonable expectations. The Commission assumes that the Trustees of the Carnegie Foundation will in due time announce a date after which the privileges and expectations of the present system will not be available to those newly entering upon the profession of teaching.

Voted: That the Trustees of the Carnegie Foundation be requested to give all possible consideration to the needs of the older teachers in institutions which are not yet, but may later be, associated with the Foundation.

Voted: The Commission does not know the extent to which assistance can be obtained outside the present funds of the Foundation, but it is acting on the expectation of substantial assistance in carrying a large but limited load, and with the further understanding that adequate assistance cannot be obtained to carry the ever increasing pension burden without calling upon institutions and individual teachers to bear a share.

The report of this commission was considered by the trustees of the Carnegie Foundation at a special meeting held in May, 1917. At that meeting the trustees took up and accepted the statement of fundamental principles of a pension system as framed by this commission. The trustees also accepted the form of machinery recommended by the commission to carry out these principles as it is embodied in the proposed Teachers Insurance and Annuity Association, and voted to ask of the trustees of the Carnegie Corporation one million dollars to establish this agency.

To fulfil the expectations of teachers in the associated institutions in the manner suggested by the commission was beyond the power of the trustees because the funds at their disposal were inadequate.

There were in active service in these institutions on November 17, 1915,[1] some 6600 teachers, including professors, associate and assistant professors, and instructors. These teachers were distributed in age as follows:

Age	*Number of Teachers*
20-24	34
25-29	559
30-34	1149
35-39	1235
40-44	1124
45-49	925
50-54	675
55-59	440
60-64	247
65-86	238
	6626

This number must of course decrease year by year since teachers entering these institutions, after the date named, come under the new plan.

The conditions under which expectations have been created are the following:

Seventy-four colleges and universities have been admitted to the pension benefits of the Foundation. The teachers of these institutions have the privilege of retiring under the following rules:

1. An old age retiring allowance is granted at the minimum age of sixty-five, after fifteen years of professorial service.

2. A disability allowance is granted after twenty-five years of service in case of complete disability.

3. Widows of teachers qualified under provision 1 or 2, or widows of teachers who die before retirement after twenty-five years of service, receive one-half of the pensions accredited to their husbands.

4. The Carnegie Foundation retains the power to alter these rules in

[1] On this date the trustees passed resolutions looking toward the adoption of a contributory pension plan. These resolutions accompanied the President's report on the new plan, which was sent to the trustees, officers, and teachers of all of the associated institutions.

such manner as experience may indicate as desirable for the benefit of the whole body of teachers.

An actuarial estimate of the load likely to accrue year by year from the retirement of these teachers under the present rules involves assumptions of great uncertainty. The actuaries have little information to guide them in determining the rate of separation, the age at which men will choose to retire, or the average salary thirty years hence. The records of the Foundation show that there is a large drift from the associated colleges to the hundreds of other colleges and universities in the United States and Canada, and these records show also that a large proportion of younger men go out of teaching. But how large these factors are is unknown. Further, it is evident that the war will have a marked effect on this situation. Already a large number of teachers under forty have given up their positions. Some of these will return to their places, but many will enter other callings, or be distributed among other colleges.

The only assumptions that can be made are that men will withdraw in somewhat the same proportion as during the past five years, and that teachers will avail themselves of the privilege of retirement as soon as it is open to them.

Under these assumptions the computations of the actuaries show that the load arising from the pensions of these teachers will steadily increase, reaching its maximum about thirty years hence, then diminishing, until about the forty-fifth year the annual cost will approach the present income of the Foundation. Computations on this basis indicate that the total sum necessary to be paid out during the forty-five years to carry out the present rules completely in the cases of these teachers will be $69,000,000, in addition to the sums, now amounting to about $700,000 annually, which the Foundation pays to teachers already retired and to widows of such teachers.

During the same period the income of the Foundation available for such pensions will be approximately $34,000,000. To carry out the present rules unchanged would require twice as much money as the trustees have at their disposal. In the light of these figures the expectations of the teachers, as formulated by the commission, were obviously not justified by the facts of the situation.

In making and announcing the present rules, the trustees of the Carnegie Foundation took pains not to bind themselves by promises which they might be unable to fulfil. In connection with their original announcement, and as part of the same memorandum, they explicitly reserved the right to make such changes in the rules of retirement as experience may indicate as desirable for the benefit of the whole body of teachers. This right has been twice exercised: once in the year 1908, by the extension of the privileges of the Foundation to instructors and to widows, and again in 1910 by the elimination of the pension hitherto granted on the basis of service alone. These facts were fully known to the teachers in associated institutions. But so great was the desire of the trustees to meet every expectation that had been created, whether fully justified or not, and so serious was their reluctance to curtail privileges which had been mistakenly regarded as promises, that after full deliberation the trustees of the Foundation decided to ask the aid of the Carnegie Corporation in carrying out the present rules upon the exact terms suggested by the commission—even tho they knew that the demands made upon the trustees of the Carnegie Corporation were so great as to make it doubtful whether this request could be granted in its entirety. This request, forwarded in the latter part of May, 1917, was conveyed in the following resolutions:

Voted: That the Carnegie Corporation of New York be asked to coöperate with the Carnegie Foundation for the Advancement of Teaching in carrying out the recommendations of the Commission in the following matters:

1. By enabling the Foundation to fulfil the expectations of teachers in the associated colleges and universities prior to the seventeenth of November, 1915. This will involve a large but limited liability extending over a number of years, the extent of which will be clearly indicated by the actuarial reports which accompany this record.

2. By enabling the Foundation to afford some assistance during the transition period of the next twenty years toward the retiring allowances of old teachers in institutions which are not now, but may later be, associated with the Foundation. At the present time the Foundation is devoting the income of more than $2,000,000 of its endowment to the payment of pensions to teachers not in the associated institutions.

3. By supplying the capital necessary to establish the Teachers Insurance and Annuity Association. The sum necessary to establish the Teachers Insurance and Annuity Association is $1,000,000.

In reply to these resolutions, the trustees of the Corporation answered, in November last, that they had given earnest study to the requests of the Foundation; they expressed their appreciation of the difficult questions with which the trustees of the Foundation have had to deal, and indicated their desire to aid toward a wise and just solution of its problems. In extending such aid, however, the trustees of the Corporation stated that they were obliged to take into account not alone the expectations of the Foundation, but the needs of other causes as well; that as a sound principle for their guidance they must assume that such obligations as the Corporation undertakes, whether on behalf of the institutions bearing Mr. Carnegie's name or for other agencies, shall be determinate. The present trustees of the Corporation did not feel justified in mortgaging any large part of its income for an indefinite number of years. In the light of these general principles, the trustees of the Corporation stated that such aid as they could extend in enabling the Foundation to fulfil the expectations of teachers must be expressed in terms which are definite, both as to amount and as to duration. Bearing in mind these limitations, the trustees of the Corporation have agreed to supply, in answer to the request of the Foundation, thirteen millions of dollars, of which one million is to provide capital and surplus for the Teachers Insurance and Annuity Association, one million is to be devoted to the assistance of teachers and colleges not now associated with the Foundation, while eleven millions shall go to the creation of a reserve under the following conditions:

1. The Foundation shall begin at once the accumulation of a reserve fund for the liquidation of pension obligations to accrue from teachers in the associated institutions. Into this reserve fund the Foundation shall place its present surplus amounting to approximately one million dollars. To this reserve fund the Corporation shall contribute $5,000,000 par value of bonds, any deferred payments at the convenience of the Corporation to be made as of January 1, 1918, with interest at four per cent. This reserve is to be placed in a special account by the Foundation, and the income from it added to the reserve from year to year for a period of ten years.

2. The Corporation shall pay into the treasury of the Foundation for the same period of ten years $600,000 annually, at the convenience of the Corporation. The entire annual income of the Foundation not required in the judgment of the trustees for the payment of pensions is to be carried at the end of each year to the reserve fund.

3. The reserve thus created shall be available at the end of ten years for the discharge of the obligations of the Foundation as they may accrue thereafter. Should the experience of the next fifteen years prove that some further adjustment is necessary at the period of maximum load, thirty years hence, the responsibility for such adjustment rests with the Foundation. Should the reserve prove greater than is demanded for this purpose, the residuum shall be added to the permanent endowment of the Foundation to be used for its corporate purposes.

This generous addition to the resources of the Foundation will provide, at the end of ten years, a large reserve, available, principal and interest, for the payment of pensions. This reserve, together with the income of the Foundation, will enable the trustees to expend during the next forty-five years in meeting the expectations of the teachers in the associated institutions over fifty millions of dollars.

Even this large sum is not sufficient to carry out the present rules without some modifications, and as a part of the agreement to this joint arrangement, the trustees of the Corporation attached the following condition:

"The trustees of the Carnegie Foundation shall now and hereafter, from time to time as may prove necessary, revise their rules so that the pensions provided for shall not exceed the financial resources of the Foundation."

The trustees of the Carnegie Foundation have now a definite sum with which to deal, and the revision of the rules in accordance with the agreement with the Corporation is now their first duty.

The general principles upon which this revision should be based seem clear. Men within measurable distance of the retiring age have expectations of a very definite character. To some extent their plans for the future are founded upon a retiring allowance at sixty-five. On the other hand, teachers who are many years from retirement have no such definiteness of expectation, and have not altered their life plans in the prospect of a pension many years hence. Furthermore, younger teachers will obtain thru the new Insurance and Annuity Association far greater advantages in the way of cheap insurance and annuities than older men. From every consideration of equity, therefore, it is desirable that such revision as is necessary shall be so planned as to affect the retirement of older men as little as possible and to apportion changes in the retiring

allowances of younger men with a view to the benefits they will enjoy from the Teachers Insurance and Annuity Association.

The nature and extent of the readjustment that must be made will be more clearly understood if the resources and expectations are stated in terms of "present values"[1] rather than in estimated gross amounts payable thru a long term of years. Stated in present values, as of December 31, 1917, the situation is as follows:

Resources available for allowances in associated institutions	$26,000,000
Amount required to pay pensions now in force	5,700,000
Available for allowances to those now in active service	$20,300,000
Estimated present value of expectations under the existing rules	$28,000,000

Reduced to its simplest terms, the problem confronting the trustees is to devise a plan of retirement for those now in service in the associated institutions which will reduce their obligations by approximately eight million dollars (present value), while meeting reasonable expectations in the fullest possible measure. Furthermore, it is the duty of the trustees to propose now such measure of retrenchment as nearly as it can be ascertained in order that equal justice be done, otherwise the drastic reductions that may be necessary fifteen or twenty years hence will be entirely at the expense of men whose pensions fall in at a later date. With the aid of expert actuaries the executive committee has examined every feasible assumption for bringing the cost of the future pension load within the limit of its known resources. It has taken into consideration all the suggestions of the associated institutions[2] and of the American Association of University Professors.[3] Like all problems in which pensions are concerned, it is only partly actuarial. The underlying assumptions which touch the questions of equity and of availability to teachers are matters of general judgment.

There are only three feasible methods of reducing the future cost of the estimated load: (1) to cut off entirely the expectations of a large

[1] Present value is that sum which, if in hand December 31, 1917, and invested in such a way as to realize interest at the assumed rate, will exactly suffice to meet all obligations as they mature, and will be entirely exhausted, both principal and interest, in the process, if the assumptions regarding mortality, age of retirement, amount of annuities, etc., are realized in experience.

[2] Published in full in the *Eleventh Annual Report*.

[3] "If it should be found that the financial resources of the Foundation and the funds which may be availed of by it are insufficient for this purpose then, of the various suggestions which have been made for reducing the benefits of the existing system, we regard a gradual change in the minimum age of retirement as perhaps the least objectionable."—1916 *Report* of the Committee on Pensions of the American Association of University Professors.

number of teachers, (2) to raise the minimum age of retirement, or (3) to cut down the value of the average pension.

The first method has been rejected as inequitable. It is recognized that the financial value of the expectation of a teacher at age 30 is very different from that of another teacher at age 60, but the equity of the expectation, whatever its cash value, is the same. It would be entirely feasible to make a solution of the problem thru either one or the other forms of reduction. If the minimum age of retirement is at once raised to 70 years, the problem would be solved. On the other hand, the same result can be effected by cutting down all retiring allowances about one-third.

The objection to the adoption of either of these measures, to the exclusion of the other, is so weighty that some compromise plan is inevitable. If the minimum age of retirement were arbitrarily raised to 70, not only would such a radical change produce much hardship and disappointment to teachers, but the plans of institutions which have fixed an earlier date of retirement would be upset. While the date at which a teacher ought to retire varies with the individual, to compel all teachers to wait to 70 years of age for retirement would go far to destroy the value of the retiring system both to the teachers and to the colleges.

On the other hand, if a sweeping reduction of allowances were undertaken, the burden would fall with most distressing effect upon those who have the greatest claim to consideration—those who will retire in the near future.

It has been found possible to devise a plan under which the teacher may either have retirement at 65 or the full pension, or such adjustment between the two as may best suit his individual needs.

The moment the matter is closely examined it becomes evident that the question of minimum age at which retirement may be had cannot be separated from that of the amount of the average pension. For example, a retiring allowance of $1500 for man and wife available at age 65, one of $1980 available at age 67, and one of $2370 available at age 70 are actuarially equivalent. The two questions cannot be separately handled: as soon as the amount of money available is definitely limited, a teacher who retires at the age of 70 is equitably entitled to a larger

pension than he would have received had he retired at 65. He cannot equitably claim the same pension at 65 that he could at 70. One other consideration must be recognized. The man within measurable distance of retirement has expectations of a very definite character. To a considerable extent his future is planned upon a stated retiring allowance. He is too old to avail of the advantages of the Teachers Insurance and Annuity Association to provide an annuity to supplement his pension. Men further away from retirement have not framed their life plans upon a definite retiring allowance years hence, and in addition they can by very moderate payment secure annuities supplementing their pensions. Thus a man of 45 by payment of $64 a year could provide a $1000 annuity available between the ages 65 and 68, or a man of 30 by payment of $34 a year could obtain a one thousand dollar annuity contract available between 65 and 70.[1]

A teacher in an associated institution will, of course, be able to make such provision for insurance or annuity as he sees fit thru the Insurance Association, without prejudice to his expectation of a retiring allowance from the Foundation.

Careful actuarial analysis of the problem indicates that the resources available will suffice to support a system of retiring allowances for the teachers who were in associated institutions on November 17, 1915, upon the following rules:

I. The minimum age at which allowances will be granted (except on the basis of disability) shall remain at 65.

II. The maximum allowance available to a teacher shall continue to be computed upon the present formula. Allowance equals one-half active pay plus $400.

III. The maximum allowance shall be available upon the present basis to all teachers reaching the age of 65 on or before June 30, 1923.

IV. The maximum allowance shall be available after June 30, 1923, on the following terms:

Between July 1, 1923, and June 30, 1925, maximum allowance at 66
Between July 1, 1925, and June 30, 1926, maximum allowance at 67
Between July 1, 1926, and June 30, 1927, maximum allowance at 68
Between July 1, 1927, and June 30, 1928, maximum allowance at 69

[1] These figures are on the assumption that in case of death in the interval the accumulation is not returned. An option on the basis of return to the estate of the decedent will also be offered.

V. After June 30, 1928, the maximum allowance shall be available at age 70.

VI. For those whose allowances begin below the age at which the maximum allowance is available according to Rules IV and V the actual allowance shall be the maximum allowance diminished at the rate of one-fifteenth for each year by which the age at which the maximum is available, is anticipated, due allowance being made for fractions of a year.

VII. For those reaching 65 after June 30, 1923, the allowance of a teacher who is unmarried, or whose wife is not living, shall be two-thirds of the allowance as fixed by the preceding rules. In the cases of teachers retiring on a salary of $1800 or less this reduction shall be 15 per cent.

The rules framed above are definite and simple. Any teacher can at once determine from them his retiring allowance. He needs to know only his age and his active pay at the time of retirement.

To illustrate. A teacher aged 57 in May, 1918, will be 65 years old in 1926. Assume that he is married and that his salary is such as to give him a retiring allowance of $3000 under the present rules. Under the proposed plan, $3000 would be his maximum allowance, which he could receive when he became 70 in 1931. If he elected to retire at 65, 66, 67, or 68, in 1926, 1927, 1928, or 1929, he would in each case anticipate the maximum by two years, and his allowance would be $2600; if he retired at 69, his allowance would be $2800. If he were unmarried, his allowance would be two-thirds of these respective amounts at the corresponding ages.

To illustrate again. A teacher aged 50 in May, 1918, will be 65 in 1933. Assume him married and entitled to a maximum retiring allowance of $3000, available at 70. If he elected to retire at 65, his allowance would be $2000; at 66, $2200; at 67, $2400; at 68, $2600; at 69, $2800. If unmarried, or after the death of his wife, he would receive two-thirds of the respective sums at the corresponding ages.

It goes without saying that these rules are not adopted with the expectation that the age 68, 69, or 70 is suitable to the great body of teachers as a time of retirement. Nor is it assumed that the outcome of this action will result in the retention of any large proportion of men to

such age. Any teacher who desires to do so may retire at 65. For those within ten years of retirement the rules are so framed that they may retire with small changes in their expected allowances. The question how long a teacher shall remain in service is one between him and his college.

These measures have been framed upon the basis of exhaustive actuarial computations. Such estimates necessarily involve many assumptions, and the statement of the result in dollars gives a fallacious impression of accuracy. It is impossible to forecast absolutely the rate of interest over long periods, the rate of separation, the result of changes brought about by the war,—all weighty factors. The estimates are believed to be conservative in the sense that they have taken into account all sources of expense. The next five years may show a situation that may make possible a more liberal scale for the future.

It must be clearly understood that the trustees of the Foundation have a stated amount with which to deal, and if the experience of the next five or ten years shows a wide variation from the assumed conditions, they may be compelled to make such changes as may bring the expenditures within their resources.

While the income of the Foundation will thus be devoted for many years to come to the payment of pensions to teachers in the associated colleges, the endowment itself, consisting of fifteen millions of dollars, will remain intact. It will devolve upon the trustees of the Carnegie Foundation of the next generation to determine how they can, at that time, best use the income of this endowment in carrying out the objects designated by Mr. Carnegie in his letter of gift and embodied in the Act of Congress incorporating the Foundation.

The gift of the Founder of this institution was conceived in the most generous spirit. It has enabled hundreds of college teachers grown old in service to retire in comfort and security. As a permanent solution of the problem of the protection of teachers from the risk of dependence, the plan originally adopted by Mr. Carnegie and by the trustees of the Foundation was insufficient. It has served its purpose. The real gain to colleges, both of the associated list of institutions and of those not so related, lies in the fact that the pension problem has been worked out and its solution provided for upon a basis that is reasonable, sound, and

enduring. For fifty years to come the Foundation will devote its income and its accumulated reserve to the fulfilment of the expectations of the teachers admitted to the benefits provided under the old plan. The solution of this question that has finally been reached is made possible by the generous aid of the Carnegie Corporation. It is regarded by high-minded and thoughtful men looking at the matter from a detached and disinterested point of view as a fair and generous fulfilment of the expectations of these teachers. It is believed that it will be so regarded by the teachers themselves. The obligations in this matter do not lie wholly with the trustees of the Carnegie Foundation. There are also obligations upon the teachers and the colleges who have been for twelve years, and who will continue to be for seventy-five years to come, the chief beneficiaries of the trust. The common obligations of trustees and beneficiaries have perhaps been nowhere better stated than in the following words from the President of the American Association of University Professors in his presidential address of last year:

> "The founder's idea was a noble and unique one; himself and his trustees are entitled to our heartiest gratitude and cordial sympathy. The grumbling and even hostile attitude sometimes exhibited is not justifiable. All parties can and should approach the subject in a spirit of desire for frank exchange of views and of mutual support. . . . The situation at the outset was novel; the enterprise was in some degree inevitably experimental and alterable. The trustees were and are morally entitled to make such changes as may seem absolutely necessary; the propriety of fulfilling natural expectations of beneficiaries being as obvious to the trustees as to others. Whatever change of plan is proposed will properly rest for its adoption upon the just and enlightened judgment of the trustees after full deliberation."

The present memorandum aims to set before the teachers of the associated colleges the principles upon which the trustees of the Carnegie Foundation and of the Carnegie Corporation have acted, and to make clear to teachers of all ages the exact nature of the security underlying their expectations. It is not intended to answer in detail the questions pertaining to each individual. The Teachers Insurance and Annuity Association will be incorporated as soon as the committees appointed by the actuarial societies have made their suggestions available. Teachers

in the colleges of the United States and Canada can then obtain from the actuary of the Association full details as to insurance and annuities, as well as any advice they may desire as to the policies suited to individual circumstances. In the Twelfth Annual Report of the Foundation, now going thru the press, the plan of the Teachers Insurance and Annuity Association is fully explained. The trustees of the Carnegie Foundation meet in the latter part of April to restate their rules for the future admission of institutions to the associated list as affected by the establishment of the Teachers Insurance and Annuity Association. It will be understood that the Carnegie Foundation and the Teachers Insurance and Annuity Association of America are entirely distinct organizations under separate boards of trustees,—the former in the eyes of the law a charitable institution operating under a charter issued by the Congress of the United States; the latter in the eyes of the law an insurance company operating under a charter granted by the State of New York and subject to the scrutiny of the State Department of Insurance in exactly the same manner as any other insurance company.

By direction of the Trustees of the Carnegie Foundation:

NICHOLAS MURRAY BUTLER
ROBERT A. FRANKS
ARTHUR T. HADLEY
ALEXANDER C. HUMPHREYS
HENRY S. PRITCHETT
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Executive Committee.

April 5, 1918.

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